Investment Strategy Statement

March 2024

Investment strategy statement

Introduction

The Lincolnshire Pension Fund ("the Fund"), which is administered by Lincolnshire County Council ("the Administering Authority"), is required to maintain an Investment Strategy Statement ("ISS") in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated its functions as administering authority to the Pensions Committee ("the Committee"). The investment strategy set out within this document has been agreed by the Committee, having taken advice from the Investment Consultant and Head of Pensions.

The ISS is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements ("FSS") in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS is published of the Council's website and complies with these Regulations.

Investment strategy

The primary objective of the Lincolnshire Pension Fund is to provide pension benefits for members on their retirement and/or benefits on death, whether before or after retirement, and for their dependents.

The Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employers to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed and final salary (pre 1 April 2014) and/or the accumulation of individual years built up through the career average pension scheme (post 1 April 2014) and will take account of future inflation increases. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

Investment Beliefs

These beliefs form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they are used to ensure that new members on the Pensions Committee understand previous investment decisions taken. It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

Belief 1:

The Fund should take no more investment risk than is necessary to have a reasonable chance of achieving its objectives, and only where the Committee believes it will be rewarded over the longer term.

It is recognised that investment risk is needed in the Fund to generate the required returns, however this needs to be considered on an on-going basis to ensure it is appropriate (i.e. not too high or too low) given the Fund's objectives

Belief 2:

Funding, contribution requirements, and investment strategy are linked; as the funding position and contribution requirements change, the level of investment risk should be adjusted accordingly.

The Committee's aim is to strike a reasonable balance between 1) building up a pool of assets to meet members' benefits when they fall due, 2) maintaining contribution requirements at a reasonable and affordable level, and 3) minimising investment risk.

Belief 3:

Investing in illiquid assets provides opportunities for enhancing returns, and investing in alternative asset classes helps to diversify the Fund structure.

The Committee accepts that by "locking away" funds for longer periods of time, the Fund should expect to be compensated for the lack of liquidity in the form of higher expected returns. However it is understood that this is not suitable for all the assets in the Fund. The Fund's investments should be diversified by combining assets with different risk, return and liquidity characteristics, whilst maintaining realistic expectations about the potential for sources of return to become correlated under market stress. The Committee believes an appropriate portion of the Fund should be invested in non-core asset classes, i.e. alternative assets, to provide diversification and reduce overall volatility of returns.

Belief 4:

Passive and active management both have roles to play in the Fund's structure; passive to deliver low cost asset class exposure and active to add potential value, understanding that active managers' success should be measured over a reasonable timeframe.

The Committee believes that active managers can add a return premium over investment markets, over the longer term, but accept that this has a cost. Therefore this is balanced with allocations to passive management to produce market returns at a very low cost.

Belief 5:

Although fees and costs matter, it is the expected return net of all fees and costs that should be the Committee's focus, however it is important that the value provided by an investment is commensurate with its cost.

The cost of accessing different asset classes and different management styles must be understood to ensure that the Fund is obtaining value for money, however the expected net return is the most important consideration when assessing investment opportunities and monitoring investment performance. The Fund expects its managers to have signed up to the Cost Transparency Code, and it also participates in fee benchmarking to assess the fees being paid relative to other pension schemes.

Investment of money in a wide variety of investments

It is the Pensions Committee's policy to invest the assets of the Lincolnshire Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Pensions Committee takes a long-term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Pension Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives, either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund's approved strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Pensions Committee, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments, whilst taking account of market risk and the nature of the Fund's liabilities. The current allocation may differ in the interim as changes to the strategy are implemented and assets are transferred to the sub funds within Border to Coast.

Asset class	Strategic allocation	Range	Maximum
Equity Assets	45%	+/- 6%	51%
UK equities	5%	+/- 1%	6%
Global equities	40%	+/- 5%	45%
Diversifying Growth Assets	41.5%	+/- 6.5%	48%
Diversified Alternatives (incl. private markets, infrastructure)	21%	+/- 3%	24%

Asset class	Strategic allocation	Range	Maximum
Multi Asset Credit	10%	+/-2%	12%
Property	10.5%	+/- 1.5%	12%
Protection Assets	13.5%	+/- 2%	15.5%
Fixed Income	12.5%	+/- 1.5%	14%
Cash	1%	+/- 0.5%	1.5%

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e). The investment policy of the Fund does not permit any employer-related investment, other than is necessary to meet the regulatory requirements with regards to pooling.

The Pensions Committee believes that the Fund's portfolio is adequately diversified and has taken professional advice to this effect from their investment consultant.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Pensions Committee will be informed and the Fund's officers will endeavour to bring the asset allocation back within the range within an appropriate period of time.

The Pensions Committee regularly reviews the suitability of the asset allocation, following advice from the officers, investment consultant and independent advisor.

It is intended that the Fund's investment strategy will be reviewed at least every three years, alongside the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position.

The Pensions Committee has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
Equity Assets	
UK Equities	FTSE All Share
Global Equities	MSCI All Countries World Index
Diversifying Growth Assets	
Private Markets	SONIA +6%
Property	
Property Venture	7% Per Annum
Property Unit Trusts	UK IPD Monthly Index
Infrastructure	6% Per Annum
Multi Asset Credit	SONIA +3.5%
Protection Assets	

Asset class	Benchmark
Corporate Bonds	iBoxx £ Non-Gilts Index
Cash	SONIA – 10bps (three month average)

The suitability of particular investments and types of investments

The actuarial valuation, undertaken by Barnett Waddingham at 31 March 2022, was prepared on the basis of an expected long-term investment return of 4% p.a. and assuming inflation (CPI) to be 2.9%. The Pensions Committee has set the investment objective of producing a long term return of 0.75% p.a. above the strategic benchmark.

In order to monitor the investment objective, the Pensions Committee requires the provision of detailed performance measurement of the Fund's investments. This is provided by the Fund's custodian on a quarterly basis. In addition, the Pensions Committee conducts a formal annual performance review of overall fund performance.

The approach to risk

The Committee is aware that the Fund has a need to take risk to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below:

Risk	Description	Mitigants
Market	Value of an investment decreases as a result of changing market conditions.	Strategic asset allocation, with suitable diversification and appropriate ranges, determined on a triennial basis. The Committee has put in place rebalancing arrangements to ensure the Funds actual allocation does not deviate substantially from its target.
Performance	The Fund's investment managers fail to deliver returns in line with the underlying asset classes.	Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis.

Risk	Description	Mitigants
		Key investment managers present to the Committee regularly.
Valuation	Valuations disclosed in the financial statements, particularly for unquoted investments, are not reflective of the value that could be achieved on disposal.	The valuation of investments is derived using a conservative valuation methodology and, where applicable, market observable data. The Fund is externally audited annually.
Liquidity	The Fund is not able to meet its financial obligations as they fall due or can do so only at an excessive cost.	The Fund always maintains sufficient liquidity to ensure that it can meet its financial obligations.
Interest rate	A change in interest rates will result in a change in the valuation of the Fund's assets and liabilities.	The Fund regularly monitors its exposure to interest rates and may consider hedging where appropriate.
Foreign exchange	An adverse movement in foreign exchange rates will impact on the value of the Fund's investments.	The Fund regularly monitors its foreign exchange exposure.
Demographic	Changes, such as increased longevity or ill-health retirement, will increase the value of the Fund's liabilities.	Demographic assumptions are conservative and reviewed on a triennial basis.
Regulatory	Changes to regulations and guidance may increase the cost of administering the Fund or increase the value of the Fund's liabilities.	The Fund ensures that it is aware of any actual or potential changes to regulations and guidance and will participate in consultations where appropriate.
Governance	The administering authority is unaware of changes to the Fund's membership which increases the value of its liabilities.	The Fund regularly monitors membership information and communicates with employers.

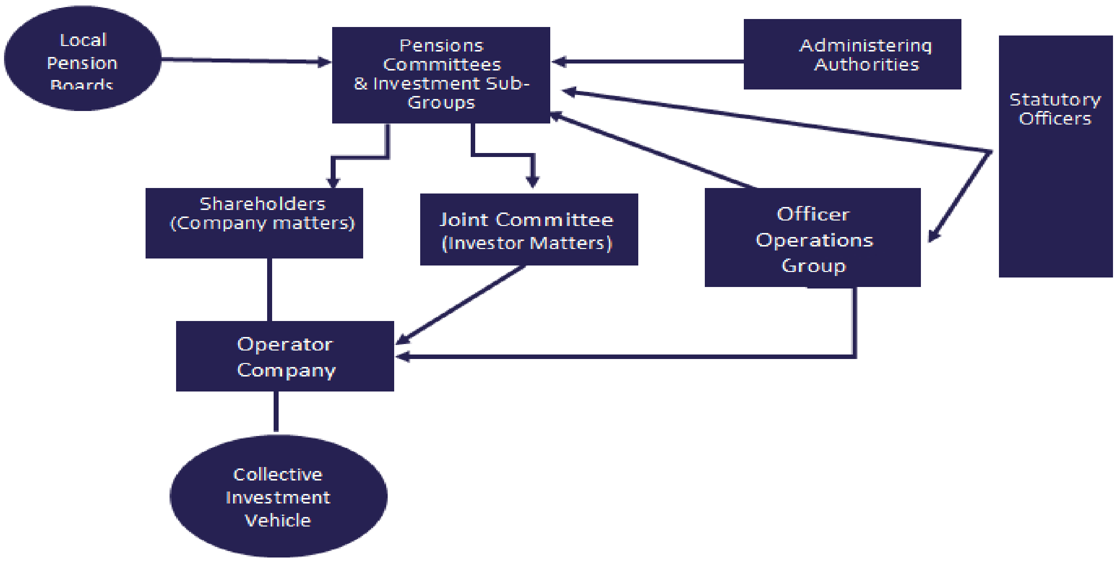
Investment Pooling

To satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG") in November 2015, the Pension Fund elected to become a shareholder in Border to Coast Pensions Partnership Limited (Border to Coast). Border to Coast is an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM").

Border to Coast is a partnership of the administering authorities of the following LGPS Funds:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The governance structure of Border to Coast is set out in the diagram below:



The Fund holds Border to Coast to account through the following mechanisms:

- Partner fund representatives on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.

- A representative on the Joint Committee, being the Chair of the Pensions Committee, who will monitor and oversee the investment operations of Border to Coast.

- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Pension Fund retains the decision-making powers regarding asset allocation and delegates the investment management function to Border to Coast, where allocations have transitioned.

A significant proportion of the Fund's investments are already made through Border to Coast, however where it is not practical or cost effective for assets to be transferred into the pool, they will continue to be managed at the Fund level until there is an appropriate pooling option available.

The current position of assets pooled is shown below:

Assets Pooled - strategic asset allocation **(actual allocation might differ)**	**Border to Coast Vehicle**
5% UK equity allocation	UK Listed Equity Fund (internally managed)
25% Global equity allocation	15% Global Equity Alpha Fund (externally managed) 10% Overseas Developed Equity Fund (internally managed)
10% Multi Asset Credit	Multi Asset Credit Fund
12.5% Fixed Income	Sterling Investment Grade Credit Fund
52.5% Total strategic asset allocation in Border to Coast vehicles	

The Committee has agreed a transition plan, as set out below, for those assets not pooled, and is working with Border to Coast to implement this once suitable vehicles are available.

Assets Not Pooled (strategic asset allocation)/Levelling Up	**Current Arrangement**	**Plan**
15% global equity allocation	LGIM's Future World Fund (passive), with oversight from Border to Coast.	Working with Border to Coast to assess the feasibility of a vehicle for this. Will only transition if it will be more effective/efficient than the current vehicle.
21% Private Markets allocation	Morgan Stanley (including legacy PE and infrastructure)	Working with Border to Coast on the capability of a full managed service as we currently receive from Morgan Stanley. Any transition would take a number of years due to

		legacy investments that may be required to run off.
10.5% Property allocation	Several managers across UK commercial, Global, and UK residential	Committed to investing in the Border to Coast Overseas and UK Real Estate Funds. Investment period will be across a number of years.
1% Cash allocation	Managed by LCC Treasury Team	No plans to pool, managed alongside LCC cash
5% Levelling Up (no strategic allocation for this as it crosses a number of asset classes)	No specific policy or allocation to levelling up investments. Approx. 2% of current investments fit within the levelling up missions' definitions (across infrastructure and UK residential property).	To consider investment into the next iteration of the Border to Coast UK Opportunities Fund (first vehicle launching April 2024), specifically developed to meet the levelling up requirements.

The Fund will perform an annual review of assets that are held outside of the pool, to ensure that it continues to demonstrate value for money, and this information will be presented in the Fund's Annual Report. As required, the Fund will submit reports on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

Approach to environmental, social and corporate governance (ESG) factors

The Fund considers itself to be a responsible investor, taking ESG matters seriously and monitoring the investment managers' approach to ESG.

Responsible Investment Beliefs

The objective of the statement is to set out the Fund's key responsible investment (RI) beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund and the strategic asset allocation. In addition, they will be used to ensure that new members on the Pensions Committee understand previous investment decisions taken.

Belief 1:

Companies with a responsible ESG policy are expected to outperform companies without an ESG policy, over the longer term.

The Committee believes that companies that have well developed ESG policies will generally provide better long-term performance than those companies that have not considered ESG factors in their business.

Belief 2:

The Committee considers that company engagement, rather than disinvestment, would be the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be considered. Disinvestment on a whole sector basis is not within the Committee's beliefs.

Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails.
While disinvestment on a whole sector basis is not considered appropriate, the Fund will not invest in companies whose products do not comply with the Geneva Convention.

Belief 3:

Climate change and the expected transition to a low carbon economy is a long-term financial risk to Fund outcomes.

The Committee believes that climate change risk and the transition to a low carbon economy should be factored into asset allocation decisions and also investment decisions by managers to reduce the long-term financial risk, but also to take advantage of the opportunities that may be available.

Belief 4:

The Committee should focus on meeting its financial obligations to pay benefits to members. Financial considerations should therefore carry more weight than non-financial considerations.

The main objective of the Pension Fund is to ensure that it can pay benefits to its members as and when they fall due. Therefore, financial considerations will be at the forefront of any investment or asset allocation decisions.

Belief 5:

The Fund's active investment managers should embed the consideration of ESG factors into their investment process and decision making.

The Committee believes that the consideration of ESG factors when making investment decisions should not be an add-on but should be embedded into the whole investment selection process. Any active managers appointed by the Fund will be expected to evidence this.

Belief 6:

The Fund should collaborate with other investors if it could have a positive impact, and also engage with them and investment managers to better understand ESG risks.

The Committee believes that the Fund has a stronger voice when working with others, be it Border to Coast Pensions Partnership, Local Authority Pension Fund Forum (LAPFF) or any other organisations. The Fund will work with them and the investment managers to ensure that it understands the ESG risks and how best to address them. It is considered that the Pensions Committee represents the views of the Fund membership and, in addition, the views of the Local Pension Board are taken into account as part of their review of this document.

The exercise of rights attaching to investments (including voting rights)

The Fund has published its Responsible Investment Policy and Voting Guidelines.

Lincolnshire Pension Fund is fully committed to responsible investment (RI) to improve the long-term value for shareholders. The Fund believes that well governed companies produce better and more sustainable returns than poorly governed companies. The Fund also believes that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), should influence the Board/Directors of underperforming companies to improve the management and financial performance of those companies.

As global investors, the Fund expects the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. The Fund successfully met the Financial Reporting Councils standards in its Stewardship Code Statement, which reflects on the activities and outcomes of the Fund against the 12 principles. The Fund's latest approved Stewardship Code Statement is published on the website.

Compliance and monitoring

The investment managers are required to adhere to the principles set out in this Investment Strategy Statement, and Officers report to the Pensions Committee where any investment managers do not comply.

The Investment Strategy Statement of the Lincolnshire Pension Fund will be reviewed by the Pensions Committee at least every 3 years and more regularly if considered appropriate or amendments are required.